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EXPLORATION OF THE CONTRIBUTION OF SMES TO ECONOMIC GROWTH IN EAST JAVA PROVINCE 2020-2022

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Abstract

The purpose of this study is to examine the effect of the number of MSME units on economic growth in East Java Province, to examine the effect of MSME labor on economic growth in East Java Province, and to examine the effect of the number of MSME units and MSME labor on economic growth in East Java Province. This study uses a quantitative approach with an associative type. The data sources used are secondary data obtained from the publications of the East Java Central Statistics Agency. The data analysis technique employs multiple regression analysis with the help of the Eviews application. The population and sample consist of cities/regencies in East Java from 2020-2022. The results of the study show that: The number of MSME units partially affects economic growth in East Java Province from 2020-2022. The number of MSME laborers partially does not affect economic growth in East Java Province from 2020-2022. However, the number of MSME units and the number of MSME laborers together (simultaneously) affect economic growth in East Java Province from 2020-2022.

Kata Kunci:
Jumlah UMKM, Jumlah Tenaga Kerja UMKM, Pertumbuhan Ekonomi

Abstrak

Tujuan dari penelitian ini untuk menguji Pengaruh jumlah unit UMKM terhadap pertumbuhan ekonomi di Provinsi Jawa Timur, menguji Pengaruh tenaga kerja UMKM terhadap pertumbuhan ekonomi di Provinsi Jawa Timur. Dan pengaruh jumlah unit UMKM dan tenaga kerja UMKM terhadap pertumbuhan ekonomi di Provinsi Jawa Timur. Penelitian ini menggunakan pendekatan kuantitatif dengan jenis asosiatif. Sumber data yang digunakan merupakan data sekunder yang diperoleh dari publikasi Badan Pusat Statistik Jawa Timur. Teknik analisis data menggunakan metode analisis regresi berganda dengan bantuan aplikasi Eviews. Populasi dan sampelnya adalah kota/kabupaten jawa timur tahun 2020-2022. Hasil penelitian menunjukkan: Jumlah unit UMKM secara parsial berpengaruh terhadap pertumbuhan ekonomi di Provinsi Jawa timur tahun 2020-2022. Jumlah tenaga kerja UMKM secara parsial tidak berpengaruh terhadap pertumbuhan ekonomi di Provinsi Jawa timur tahun 2020-2022. dan Jumlah unit UMKM dan jumlah tenaga kerja UMKM secara bersama-sama (simultan) berpengaruh terhadap pertumbuhan ekonomi di Provinsi Jawa timur tahun 2020-2022.

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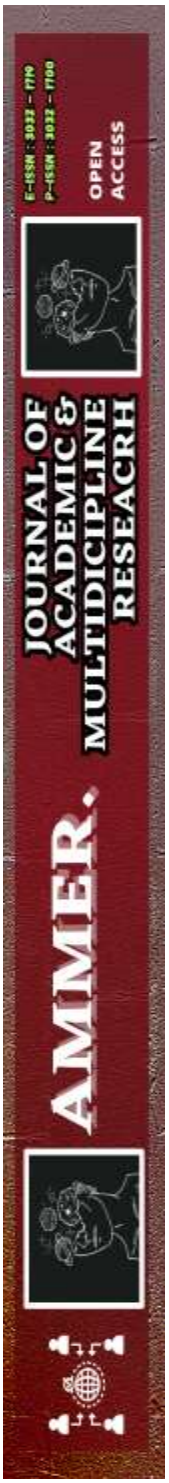

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INTRODUCTION

Economic growth is a long-term macroeconomic issue where, in each period, the people of a country strive to increase their ability to produce goods and services. The goal is to increase real production levels (national income) and living standards (real per capita income) through the provision and mobilization of production factors. There are three points to consider in economic development: (1) development as a process, meaning development is carried out gradually; (2) development as an effort to increase per capita income, where all parties must actively participate because per capita income reflects the welfare of society; (3) in increasing per capita income in the long run, when per capita income increases, the economy will develop (Rustan, 2019).

In the context of economics, economic growth is often measured by the increase in Gross Domestic Product (GDP) and is the result of various interacting economic factors. Among these factors, the presence of Micro, Small, and Medium Enterprises (MSMEs) and the number of workers play a crucial role. The Flexible Specialization Thesis states that as national (regional) economies develop, MSMEs will play an increasingly important role in the economy. MSMEs will grow faster than large enterprises in the ongoing development process. The emergence of the Flexible Specialization Thesis ultimately challenges the Classical Theory's view of the role of MSMEs in development, as initiated by Hoselitz, who argued that as national (regional) economies develop, the role of MSMEs will diminish and be displaced by large enterprises (Hamdani, 2020).

The development of MSMEs has broad potential impact on the global Sustainable Development Goals (SDGs), including SDG 1 (ending poverty), SDG 2 (zero hunger), SDG 3 (good health and well-being), SDG 5 (gender equality), SDG 8 (promoting inclusive and sustainable economic growth, employment, and decent work for all), SDG 9 (building resilient infrastructure, promoting sustainable industrialization, and fostering innovation), and SDG 10 (reducing inequalities).

The MSME sector contributes 61% to economic growth, equivalent to IDR 9,580 trillion, and MSMEs contribute to the employment of 97% of the total workforce. According to data from the Ministry of Cooperatives and MSMEs, Indonesia has 65.5 million MSMEs, which account for 99% of all business units. This demonstrates how dominant the role of MSMEs is in Indonesia's economic growth. Therefore, empowering MSMEs is crucial to enhancing Indonesia's economic growth.

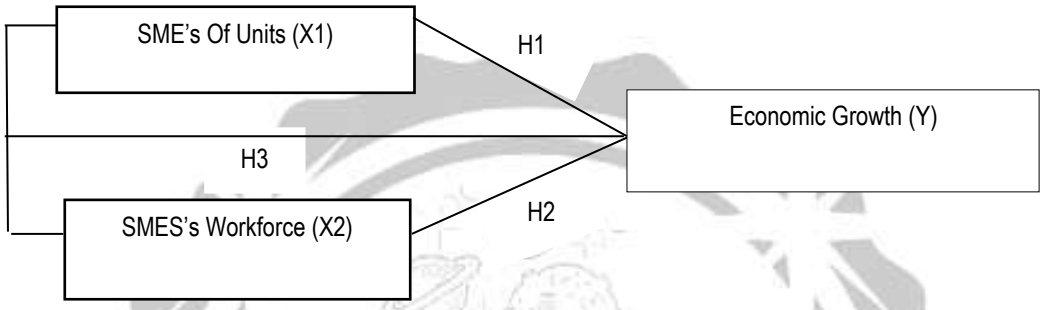
According to data from the Central Statistics Agency (BPS) East Java, in 2020 there were more than 9.7 million MSME units in the province. The high number of MSMEs reflects how vital this sector is in supporting economic growth at the city/district level. Research by Tambunan (2019) indicates that strong and competitive MSMEs can drive regional economic growth through increased productivity and local innovation. A study by Nining et al. (2017) shows that the MSME variable has a positive and significant impact on economic growth in Sumbawa Regency. In this regard, an increase in the number of MSMEs can have a positive impact on regional economic growth. This research supports Ade's (2011) study, which states that MSME exports, the number of MSME units, and MSME investments have a significant impact on economic growth in the MSME sector in Indonesia.

The workforce absorbed by the Micro, Small, and Medium Enterprises (MSMEs) significantly influences economic growth and Regional Gross Domestic Product (GDP) in East Java Province. Based on data from the Central Statistics Agency (BPS) East Java, in 2022, MSMEs employed around 17.5 million workers, covering more than 90% of the total workforce in the province. The high employment rate in MSMEs not only reduces unemployment but also drives household income and domestic consumption, which are important components of economic growth. Research by Doni (2021) shows that the development of Micro, Small, and Medium Enterprises indicated by MSME labor and non-oil and gas exports has a positive and significant effect on economic growth. Similarly, research by Bradford (2023) states that the partial number of MSME workers has a positive and significant effect on the Regional Gross Domestic Product of Manado City, Tomohon, Bitung, and Kotamobagu.

However, despite the increasing number of MSMEs and the workforce absorbed by this sector, MSMEs face various challenges, including access to capital, managerial skills, and technology adoption. These

challenges, coupled with the impact of the COVID-19 pandemic, raise questions about how significant the influence of the number of MSME units and the workforce absorbed by MSMEs is on economic growth in various cities/districts in East Java.

This research aims to analyze the impact of the number of MSME units and the MSME workforce on economic growth in East Java during the period 2020-2022. This study is important to understand how MSMEs contribute to regional economies, especially in a post-pandemic context. Through this analysis, deeper insights are expected into the dynamics and role of MSMEs in driving regional economic growth. Moreover, this research is expected to provide input for local policymakers in formulating more effective strategies to support MSME development. Proper policies will enhance the contribution of MSMEs to economic growth, reduce unemployment, and improve overall societal welfare.



Picture 1. Theorytical Framework
Source : Data In Processed, 2023

The hypotheses in this study are as follows:

H1: It is suspected that the Number of MSME Units (X1) significantly influences Economic Growth (Y)..

H2: It is suspected that the Number of MSME Workers (X2) significantly influences Economic Growth (Y).

H3: It is suspected that the Number of MSME Units (X1) and Number of MSME Workers (X2) simultaneously significantly influence Economic Growth (Y).

RESEARCH METHOD

This research employs a quantitative approach. According to Creswell, quantitative research involves the collection and analysis of numerical data to understand specific phenomena. This type of research is often used to test theories or hypotheses through the measurement of variables and the use of statistical procedures to analyze data. The specific type of research used in this study is associative research. The data source used is secondary data obtained from publications by the Central Statistics Agency (Badan Pusat Statistik, BPS) of East Java Province. The population and sample are the cities/districts of East Java Province from 2020 to 2022. The data analysis technique involves multiple regression analysis using the Eviews application.

RESULT AND DISCUSSION

Result of Statistic Deskriptive

The data on the number of MSME units, the number of MSME workers, and Economic Growth in East Java Province, which have been collected, are further processed using descriptive statistics with the following results:

Table 1. Result of Statitstic Deskriptive

	SME's Units	Labour of SME's	Economic Growth
Mean	1,635614	0,018281	0,013263

Median	3,215000	-0,018000	-0,036500
Maximum	8,880000	1,191000	1,071000
Minimum	-6,460000	-0,316000	-0,637000
Std. Dev.	3,767352	0,225443	0,274917
Skewness	-0,520184	2,460973	1,513908
Kurtosis	2,047622	11,69216	6,798814
Jarque-Bera	9,449603	473,9513	112,0936
Probability	0,008872	0,000000	0,000000
Sum	186,4600	2,084000	1,512000
Sum Sq. Dev.	1603,802	5,743167	8,540492
Observations	**114**	**114**	**114**

Source : Data Processed, 2024

Perkembangan jumlah unit UMKM di Provinsi Jawa Timur menunjukkan nilai minimumnya -6,460000 dan maksimumnya 8,880000 dengan standar deviasi 3,767352 sedangkan meannya atau rata-ratanya menunjukkan 1,635614 artinya dari semua sampel rata-rata perkembangan unit UMKM di Provinsi Jawa timur dari tahun 2020 hingga 2022 paling tidak terdapat 1,635614 unit. Perkembangan jumlah tenaga kerja UMKM menunjukkan nilai minimumnya sebesar -0,316000 dan maksimumnya 1,191000 dengan standar deviasi 0,225443 sedangkan meannya atau rata-ratanya menunjukkan 0,018281 artinya jumlah rata-rata perkembangan jumlah tenaga kerja UMKM yang ada di Provinsi Jawa timur dari tahun 2020 hingga 2022 adalah sebesar 0,018281. Pertumbuhan ekonomi di Provinsi Jawa timur nilai minimumnya adalah -0,637% dan maksimumnya 1,071% dengan standar deviasi 0,274917, sedangkan rata-ratanya adalah sebesar 0,013263. Nilai ini menunjukkan tingkat pertumbuhan perekonomian di Provinsi Jawa Timur.

Uji Pemilihan Model Regresi Data Panel

The first step involves processing the data using the Common Effect Model (CEM), which simply combines all time series and cross-sectional data, then estimates the model using Ordinary Least Squares (OLS) method. The results of the processing using the Common Effect Model are as follows:

Table 2. Result Of Regression Common Effect Models (CEM)

Variable	Coefficients	t-statistic	Significant
C	1,568006	4,524474	0,0000
X1	6,476114	2,630080	0,0097
X2	-3,828628	-1,896110	0,0605
R-*squared*	0,059169		
F-statistik	3,490389		
Signifikansi (F-statistik	0,033877		

Source : Data Processed Eviews 12

The second step involves processing the data using the Fixed Effect Model (FEM) to compare with the Common Effect Model. The results of the processing using the Fixed Effect Model are as follows:

Tabele. 3. Result Of Regression Panel *Fixed Effect Model* (FEM)

Variable	Coefficients	t-statistic	Significant
C	1,537436	3,967538	0,0002
X1	8,858028	2,935012	0,0044
X2	-4,806796	-1,978623	0,0516
R-*squared*	: 0,217036		
F-statistik	: 0,525964		
Signifikansi (F-statistik	: 0,984919		

Source : Data Processed Eviews 12

Table 4. Result Of Chow Test

Effect Test	Signifikansi
Cross-section F	0,9984

Cross-section Chi-square	0,9845

Source : Data Processed Eviews 12

Based on the Chow test results shown in Table 4, a significance value of 0.9984 for Cross-section Chi-square and 0.9845 for Cross-section F (both greater than 5%), thus statistically accepting Ho and rejecting Ha, the appropriate estimation model used in panel data regression is the Common Effect Model. Because the Chow test indicates that the Common Effect Model is more appropriate, the Hausman test is not necessary to further test for the more suitable model. The next step is to use the Lagrange Multiplier (LM) test to select the appropriate model results between the Random Effect Model and the Common Effect Model.

Table 5. Lagrange *Multiplier Test*

Effect Test	Cross-section	Test Hypothesis Time	Both
Breusch-Pagan	7,752825 (0,0054)	783,6904 (0,0000)	791,4433 (0,0000)

Source : Data Processed Eviews 12

Based on the LM test results shown in Table 5, a significance value of both 0.0000 < 0.05, thus statistically rejecting Ho and accepting Ha, the appropriate estimation model used in panel data regression in this study is the Random Effect Model.

Table 6. *Random Effect Model* (REM) Panel Data

Variable	Coefficients	t-statistic	Significant
C	1,568006	4,049556	0,0001
X1	6,476114	2,354009	0,0203
X2	-3,828628	-1,697081	0,0925
R-*squared*	0,059169		
F-statistik	3,490389		
Signifikansi (F-statistik	0,033877		

Source : Data Processed Eviews 12

Based on the Random Effect Model regression results above, the equation for the regression model between the dependent variable (economic growth) and the independent variables (number of MSME units and number of MSME workers) is: **Yit = 1.568005 + 6.476113*X1it - 3.828628*X2it + [CX=R]**. According to the equation above, the constant term is 1.568005. This indicates that if the independent variables (number of MSME units and number of MSME workers) are both zero, the economic growth rate is 1.568005%. The coefficient value for the number of MSME units (X1it) is 6.476113, and it is positive. This suggests that for every 1% increase in the number of MSME units, economic growth will increase by 6.476113%. The coefficient value for the number of MSME workers (X2it) is -3.828628, and it is negative. This indicates that for every 1% increase in the number of MSME workers, economic growth will decrease by 3.828628%. Conversely, a decrease in the number of MSME workers would lead to an increase in economic growth.

Table 7. t Test statistic

Variable	Coefficients	t-statistic	Significant
C	1,568006	4,049556	0,0001
X1	6,476114	2,354009	0,0203
X2	-3,828628	-1,697081	0,0925

Source : Data Processed Eviews 12

The results of the t-test can be interpreted as for X1 is 2.354009 with a positive direction and a significance value of 0.0203, which is < 0.05. This indicates that Ha is accepted and Ho is rejected. Therefore, it can be concluded that the number of MSME units has a significant influence on economic growth in East Java Province. The t-statistic for X2 is -1.697081 with a negative direction and a significance value of 0.0925, which is > 0.05. The hypothesis for the number of MSME workers indicates that Ha is rejected and Ho is accepted.

Therefore, it can be concluded that the number of MSME workers does not have a significant influence on economic growth in East Java Province. The F-test is used to determine whether the independent variables collectively influence the dependent variable or whether the regression model can be used to predict the dependent variable or not. The hypothesis test simultaneously using the F-test is shown in the following table:

Table 8. F test statistic

R-*squared*	0,059169
Adjusted R-*squared*	0,042217
S.E. of regression	3,686971
F-statistic	3,490389
Prob. (F-statistic)	0,033877

Source : Data Processed Eviews 12

Based on the output from the table is calculated F-value is 3.490389, which is greater than the tabulated F-value of 3.078057, and the significance value is 0.033877, which is less than 0.05. Therefore, Ho is rejected and Ha is accepted, meaning that both the number of MSME units and the number of MSME workers significantly influence economic growth in East Java Province. The R-squared test is used to assess how well the independent variables explain the dependent variable. Based on the Random Effect Model regression results, the adjusted R-Square value is 0.042217 or 4.2217%. This adjusted R-squared value indicates that the independent variables consisting of the number of MSME units and the number of MSME workers can explain 4.2217% of the variation in economic growth in East Java Province. The remaining 95.7783% (100% - adjusted R-Square) is explained by factors other than the variables studied. The low R-squared value in this study, which is close to zero, indicates that the ability of the independent variables to explain the dependent variable is limited. This occurs because one of the variables that significantly influences economic growth is the number of MSME units.

DISCUSSION

The study shows that the number of MSME units significantly influences economic growth in East Java Province from 2020 to 2022. The testing conducted indicates that the t-statistic for the number of MSME units is greater than the t-table value, and the coefficient value is positive, with a probability value less than the significance level. This means that the hypothesis is accepted, indicating a significant positive impact of the number of MSME units on economic growth. This finding is consistent with the research conducted by Ade (2011), which aimed to analyze the influence of MSME development on growth in the MSME sector in Indonesia from 2000 to 2009. Ade's study found that MSME exports, the number of MSME units, and MSME investment significantly affect economic growth in the MSME sector in Indonesia. MSMEs contribute significantly to economic growth, accounting for 61% or Rp 9.580 trillion, and they also contribute 97% to total employment.

The research findings indicate that the number of MSME workers does not have a significant impact on economic growth in East Java Province from 2020 to 2022. The regression analysis shows that the t-statistic for the number of MSME workers is less than the t-table value, and the probability value is greater than the significance level. Therefore, the hypothesis is rejected, suggesting that the number of MSME workers does not significantly influence economic growth in East Java Province. This finding is supported by Tulus Tambunan's theory, as referenced in Ade's (2011) study, which highlights the low productivity of MSMEs compared to large enterprises.

Simultaneously, both the number of MSME units and the number of MSME workers significantly impact economic growth in East Java Province from 2020 to 2022. The regression analysis and hypothesis testing conducted by the researcher indicate that the F-value is greater than the F-table value, with a probability value less than the significance level. This confirms that both variables significantly affect economic growth in East Java Province. These research findings are in line with a study conducted by Fira Talitha Salsabila (2022), which aimed to analyze the influence of the number of MSME units and the number of MSME workers on economic growth in Indonesia. Fira's research

similarly found that the simultaneous presence of MSME units and MSME workers significantly affects economic growth in Indonesia.

CONCLUSSION

Referring to the analysis and discussion conducted by the researcher, several conclusions can be drawn from this research is the number of Micro, Small, and Medium Enterprises (MSMEs) has a positive impact on economic growth in East Java Province from 2020 to 2022. The positive direction indicates that every one percent increase in the number of MSME units will increase economic growth. Therefore, it can be concluded that the number of MSME units partially influences economic growth in East Java Province. The number of MSME workers has a negative impact on economic growth in East Java Province from 2020 to 2022. The negative direction means that an increase in the number of MSME workers by one unit can lead to a decrease in economic growth, with other factors considered constant. Thus, it can be concluded that the number of MSME workers does not partially influence economic growth in East Java Province. Based on the results of the third hypothesis testing using regression analysis, it is found that jointly (simultaneously), there is an influence between the number of MSME units and the number of MSME workers on economic growth in East Java Province from 2020 to 2022. These conclusions are based on the research findings and support the earlier analysis and hypotheses tested in the study.

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